

**INVESTING IN ASIA'S URBAN FUTURE:  
VISION OF DEVELOPING COUNTRIES**

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Allow me to begin by saying how much I appreciate being invited to this International Conference on **Investing in Asia's Urban Future**. I would like to congratulate the Asian Development Bank and the Federal Government of Germany for choosing this theme for the Conference which, I believe, is of vital interest and significance to all of us in Asia. I see from the agenda of the Conference that it proposes to discuss the establishment of a Cities Development Initiative for Asia (CDIA). I have not seen the details of this Initiative, but given the fact that this initiative is designed to support capacity-building and investment in municipal infrastructure, I, on behalf of the Government of India, extend support to this Initiative.

2. Asia, as we know, is at the threshold of a major urban transition. Over the past two decades, 1985-2005, Asia's urban population has increased from 836 million to 1.56 billion, registering an extraordinarily large increase of 87 per cent. Asia's share in total global urban population has risen during the same period from 42% to 50%, and is poised to rise to 54% by the year 2030 A.D., as per the forecasts of the United Nations.

<b>Asia's Urban Transition</b>		
<b>Year</b>	<b>Urban Population (million)</b>	<b>% of the total</b>
1985	836.4	29.0
1990	1011.7	31.9
1995	1182.2	34.5
2000	1366.9	37.1
2005	1562.1	39.9

3. An accompanying fact in the process of Asia's urbanization is number and spread of cities of very large sizes and dimensions. By 2000, Asia had 10 out of 20 largest cities in the world, the so-called megacities having populations of over 10 million. Apart from the numerical advantage that Asia possesses in this respect, these cities carry extraordinarily large weight not only in their own countries but also in the global economic system. The prognosis is that by 2015, many of these megacities will assume even larger dimensions: Mumbai is expected to have by that year a population of 22.6 million persons; Delhi of 20.9 million; Dhaka will have grown into a metropolis of 17.9 million and Jakarta of 17.9 million persons!

4. The importance of cities, as we have seen in Asia, is not only demographic. Cities in the Asian region have acquired economic importance of immense proportions. According to various studies –

many of which bear the name of the Asian Development Bank – 60-80 percent of the GDP originates in the cities of Asian countries. There is a very close link between cities and economic growth. To my knowledge, there is no evidence of any country that has been able to accelerate its economic growth without being supported by a process of urbanization.

5. While the process of urbanization in Asia as in other regions has been a historical reality, what makes the current phase of urbanization so important is the **context** within which it is occurring. As we have been witnessing, the global conditions have undergone a major shift in the past two decades. Most Asian economies which were either closed or quasi-closed, have opened up to external trade and flow of capital, technology, and know-how. The opening up of the national economies has been enormously impacting the economic structure of cities and their growth trajectories. Indeed, there are numerous examples of cities in Asia, including my country, India, where the growth pattern of cities is now determined not as much by domestic forces as by the behaviour and mood of the international financial markets. The leverage of national governments in determining the future of cities is gradually getting restricted. This presents to the Asian countries, including agencies such as the Asian Development Bank, a formidable challenge:

how do we manage cities that are under the impact of forces that transcend national boundaries?

6. Asia's urbanization and urban growth is challenged by yet another phenomenon, whose origins too are not domestic, but driven by international trends and pressures. This is the universal incorporation of decentralization principles under which the functional and fiscal responsibilities that were earlier concentrated with the higher tiers of government, are now being devolved upon or shared with city and urban governments. Whichever Asian country one looks at, is experimenting with decentralization of some form or the other. The Philippines – the country where this Conference is being held, took a major initiative in 1991 by putting in place what it called the Local Government Code, setting in motion a system of transfer of functional and fiscal powers to its local governments. The Local Government Code served as a trend-setter, and was followed by an amendment to the Constitution of India in 1992. Under this Amendment, local governments are being viewed not only as provider of "local public goods" but as agents of economic and social development, and as tiers of government which will undertake poverty alleviation and slum improvement functions. These are significant departures in thinking and practices as

to how public responsibilities should be shared between different governmental tiers and importantly, between public and private sectors. The Amendment provides for, which is unique in many ways, setting up of Finance Commissions to determine what fiscal powers should be assigned to city and urban governments and what kind of intergovernmental revenue sharing arrangements should be in place to enable city governments fulfill their newly acquired responsibilities.

7. Other Asian economies have taken identical steps. Indonesia enacted, in 1999, laws which define distribution of powers and authority between the central and local government units, and aim at transforming intergovernmental relations within the country. Thailand brought in Decentralization Plan and Process Act in 1999 which, in a similar fashion, provided for delineation of powers and duties in management of public services as well as allocation of taxes and duties between the state and local government organizations. The Decentralization Act of Thailand, interestingly, mandates establishment of a Committee to prepare decentralization action plans and monitor their implementation. Cambodia, Nepal, Pakistan and Vietnam have taken similar steps to establish decentralized frameworks, the postulates being that (i) such frameworks help determine local priorities, and (ii)

that these provide for civil society participation in the local development processes.

8. Globalization and decentralization are not the only challenges that Asian cities are faced with. Of vital, and perhaps, immediate significance are inadequacies in city-level services, poor management and governance, and widespread poverty and deprivation. Some figures in this respect are most telling. In India, tap water within premises is available to only about 50 percent of total urban households, and roughly the same percentage has access to safe sanitation within premises. In East Asia, only 38% of households in slum settlements have access to water. For sanitation, the comparable figure is 7%. Poor quality infrastructure and underperformance of infrastructure cast a huge burden on national governments. Although the incidence of poverty has declined in Asian countries, thanks to sustained and robust economic growth that Asian countries have experienced in recent years, approximately 25-30% of urban population live in slums, squatter settlements and substandard housing. Most cities lack proper governance structures and are characterized by lack of autonomy even in their day-to-day functioning. Few countries have disclosure laws or procedures when even the basics of accountability could be enforced.

9. Coping with such inadequacies and underprovisioning of urban infrastructure constitute, in my view, one of the most formidable challenges for Asian countries. It is evident to countries that unless they mount a frontal attack on these issues, they may not be able to sustain the competitive edge which they seem to possess at this point in time; not would they be able to provide to their citizens a quality of life that is so essential for any humane and just society.

10. Most Asian countries have become acutely aware of their role in addressing urban issues in the context of globalization on the one hand, and decentralization on the other. They are conscious of the fact that with few exceptions, public sector spending levels on urban infrastructure are stagnating or even declining, and the signals from the private sector in financing urban infrastructure are not particularly strong. They are conscious of the fact that the institutional networks that came into being some decades back, cannot deal with complexities that are now associated with cities. They are conscious of the fact that decentralization initiatives have not gone very far on account of lack of clarity in the allocation of responsibilities between the different tiers of

government and more importantly, capacities to be able to carry forward the rigor and spirit that is implicit in decentralization initiatives.

11. There are several positive signals leading to positive actions. Somewhat uniformly, the Asian countries have begun to look at cities in the perspective of their contribution to growth, poverty reduction and Millennium Development Goals (MDGs). They are putting in place innovative strategies to address urban issues. For instance, Special Economic Zones and Trade Corridors have been planned and developed in several countries to spur economic and urban growth. Special efforts have been mounted to forge closer linkage between cities and the global economy. Asian economies are experimenting with new service delivery models with participatory institutional arrangements.

12. At this point, I will seek your indulgence to share with you the basics of an initiative that my Government started in 2005, to address some of the basic weaknesses in our urban system. As most of you would know, with an urban population base of 315 million persons distributed over 5161 cities and town of different sizes, India has the second largest urban system in the world, next only to that of China. Most cities in India have long suffered from the typical problems that I

referred to earlier, i.e., inadequate levels of services and infrastructure, weak urban local governments, inadequacies in accountability and transparency, and insufficient flow of investment in urban infrastructure and services.

13. In 2005, we undertook a comprehensive assessment of the state of our cities, and found that the problems were systemic, the problems lay in obsolete procedures and rules and laws, and many of the problems were rooted in our inability to move with the times. This led us to put together a programme of urban sector “reforms”, designed along the lines of the country’s economic reforms undertaken in the early 1990s. The urban sector reforms under the new programme called the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) require the participating states and cities to repeal or amend those laws that have constrained the functioning of land and housing markets, and undertake a fresh examination of property tax laws with a view to redesigning them in ways that market values rather than the historical values are captured for purposes of taxation, and realign user charges in ways that they are able to cover at least the operating costs that the city governments incur on the provision of services. The programme requires cities to earmark lands for the poorer sections of the urban

population, and give special treatment to issues of property titling – in our country, a contentious issue. The programme calls upon cities to enact disclosure laws so that citizens know where and how their tax contributions are being spent. The innovative part of the programme lies in the fact that it combines reforms with a system of grants to cities to enable them simultaneously undertake projects for improving basic infrastructure such as water supply, wastewater disposal, bus transport and the like.

14. The programme has completed one year, and we have reason to be satisfied with its performance. We see a demand for reforms at city levels which remained suppressed probably in the absence of such a programme. Lest we might not notice the weaknesses in what we are doing, we would like to invite experts present in the Conference to visit us, look at what we are doing, and give us feedback on how we can further improve and strengthen the programme. It is one of the largest urban programmes undertaken in independent India and envisages total investment of approximately \$25 billion over the Mission period. We have a high stake in seeing that it delivers.

15. Let me briefly sum up. Asia is faced with urban challenges that are unprecedented in history. Globalization and decentralization are exerting pressures on cities whose implications are just getting to be understood. They are creating demands of very large proportions in the spheres of investments, institutions, and capacity building. Most Asian economies suffer from infrastructure deficits which have to be met, not in a long-run perspective, but over the next 5-10 years or so.

16. It is here that I think the national governments and international and bilateral organization have to work together, with the shared goal of ensuring that Asia's urban transition is smooth and sustainable. It is here that I believe the public and private sectors will need to put in their expertise and experiences to come to grapple with the challenges that Asian countries are faced with.

17. Finally a word on the role of our host, the Asian Development Bank, in meeting Asia's urban challenge. The Asian Development Bank has been a major player in supporting urban projects, particularly in the spheres of urban water supply, sanitation, wastewater management, and municipal development in a number of Asian countries. I am aware of ADB's role in Indian states such as the Rajasthan and Karnataka

Urban Infrastructure Development Projects, and also in countries such as the Philippines, Indonesia and Thailand. I would very much like to see its role further expanded and diversified. First: the ADB must double its financial participation in urban projects within a relatively short time span of 5 years or so. We are aware of the requirements of the urban sector in Asian countries which are phenomenal, and estimated somewhat conservatively at about \$60 billion annually. ADB's financial support is indispensable in meeting this scale of urban requirements. Second: as I see, urban sector is crucial to ADB's overarching objective of poverty reduction and achievement of the Millennium Development Goals (MDGs). These goals include halving the proportion of people without access to potable water and adequate sanitation by 2015 A.D. and improving the lives of at least 100 million slum dwellers by 2015. Achievement of MDGs require ADB's direct role in supporting urban water supply, wastewater disposal, and solid waste management projects. Taking the Indian context for illustrative purposes:, the Asian Development Bank (ADB) could strengthen and expedite the urban reforms process of the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) by laying emphasis on JNNURM type reforms across the country, by providing technical support to states and cities to undertake such reforms, and by supporting mechanisms for

monitoring and evaluation of progress of reforms. JNNURM envisages scaling-up of urban infrastructure development manifold through reform-driven grants from the Government of India (GOI). However, JNNURM also expects state and city-level counter part funding to supplement GOI's grants. These requirements are perhaps applicable across most cities of Asia. ADB can assist the state and city governments to access long tenure capital to meet their capital expenditure funding gap. The support to access long tenure capital could be through both the traditional sovereign lending window of ADB and also through innovative/customized financial instruments and/or through enabling private sector financing by supporting the structuring of attractive public-private-partnership (PPP) projects. The public sector investments need to be supplemented by private sector investments in urban sector as the sheer size of investment needs are huge for public sector alone to fulfill. Hence, private capital inflows into urban sector have a role to play for scaling up urban infrastructure development and to remove impending bottlenecks in urban infrastructure. ADB can play a key role in project identification for PPPs, structuring projects to attract private capital, support other aspects of public private partnerships. ADB can assist in attracting international firms to supplement the domestic firms where the domestic firms are unable to meet the

demand for construction.

ADB can play a key role in the dissemination of best practices in the region and globally. Some examples in this regard: (i) supporting incorporation of best practices in project design, (ii) dissemination of best practices through workshops, training and field trips (both domestic and international)

18. A third area where the ADB has a vital role is capacity building in the sphere of urban development and management. This is a major area of concern in many Asian countries, certainly India. Our plans to move ahead could slide back if we do not build enough capacities at the different tiers of government for dealing with urban development and management issues as they emerge in our countries.

19. ADB's participation in areas such as those outlined above would be purposeful and beneficial.

20. Within the next 25 years Asian cities will have a population in excess of 2.6 billion.

The challenges are aplenty.

I am optimistic that through our collective will and collaborative efforts we would not only enhance investments in Asia's urban future but also optimize the outcomes from such investments.

I wish the Conference all success.